

FY2009 Tax Reform (Main Points)

Ministry of Finance

19 December 2008

With a view to contributing to economic recovery, and while taking into account the current economic and financial environment, the FY 2009 tax reform will take appropriate measures regarding taxation of housing and land, taxation of corporations, taxation of SMEs, inheritance taxation, taxation of financial and securities transactions, international taxation, and motor vehicle taxation.

Taxation of housing and land

- Extend the application of tax credit relating to housing loans by 5 years. Raise the maximum amount eligible for tax deduction to 5 million yen (6 million yen for long-term quality houses)
- Introduce new measures to allow tax deduction for housing investment relating to newly built long-term quality houses at one's own expenses and renovation aimed at improving energy conservation and barrier-free
- Introduce special tax deduction up to 10 million yen with regard to the profit gained from the sale of land purchased in 2009 or 2010 after the ownership of the land for at least 5 years
- Introduce measures to allow tax deferral of a part of the profit gained from the sale of the land which corporations sell within 10 years after they purchase other land in 2009 or 2010
- Maintain the current reduced tax rate of registration licence tax relating to the sale of lands for two years

Taxation of corporations

- Introduce two-year tax measures to allow immediate depreciation with regard to investment in energy-saving and new-energy facilities and in production facilities for goods such as energy-saving home electric appliances

Taxation of SMEs

- Temporarily lower the reduced corporate tax rate for SMEs from 22% to 18 % for 2 years
- Abolition of suspension of the refund system relating to net loss for SMEs

Inheritance taxation

- Establish a tax scheme to postpone the payment of inheritance tax and gift tax with regard to the unlisted shares in order to ease the transition of business for SMEs

- Expand the scope of the postponement of payment of inheritance tax for farmlands including loans intended to promote the effective use of farmlands

Taxation of financial and securities transactions

- Extend the application of the current reduced tax rate of 7% (10% if combined with Local Inhabitants Tax) for dividends and capital gains on listed shares by 3 years
- Create simple tax incentives to encourage small investments in the FY 2010 tax reform (The tax incentives will be introduced when the reduced tax rate mentioned above is abolished and the tax rate of 15% (20% if combined with Local Inhabitants Tax) in principle is applied)
- Introduce individual contributions (matching contributions) in corporate defined contribution pension plans and increase the limits on contributions
- Introduce insurance premium deduction for long-term care and medical care as a new tax relief for life insurance premiums in the FY2010 tax reform

International taxation

- Introduce a measure to treat the dividends received from overseas subsidiaries as non-taxable income in the light of tax neutrality for company's repatriation in place of indirect foreign tax credit

Motor vehicle taxation

- Temporarily reduce tax burden on the automobiles that have passed higher environmental standards

Measures to facilitate tax payment

- Extend the period of the special income tax credit for online tax return by two years

* * *

(Reference)* Preliminary estimates of revenue impacts of FY 2009 Tax Reform (national internal taxes)

In initial year		In standard year	
	(Billion Yen)		(Billion Yen)
Taxation of housing and land	- 22	Taxation of housing and land	-177
Taxation of corporation	-119	Taxation of corporation	-128
Taxation of SMEs	-204	Taxation of SMEs	-222
Inheritance taxation	-17	Inheritance taxation	-29
Taxation of financial and securities transactions	-5	Taxation of financial and securities transactions	-27
Motor vehicle taxation	-102	Motor vehicle taxation	-102
Total	-469	Total	-685

* Figures are rounded and subject to changes.

FY2009 Tax Reform

Tax Bureau
Ministry of Finance

Housing Loan Tax Credit (Proposal)

Regarding the housing loan tax credit, the following table is applied to a taxpayer who starts residing in 2009 to 2013.

1 Normal Houses

Residing year	Deductible period	Balance of housing loans as of the year-end (maximum)	Tax credit rate
2009	10 years	50 million yen	1.0%
2010	10 years	50 million yen	1.0%
2011	10 years	40 million yen	1.0%
2012	10 years	30 million yen	1.0%
2013	10 years	20 million yen	1.0%

2 Long-term Quality Houses

Residing year	Deductible period	Balance of housing loans as of the year-end (maximum)	Tax credit rate
2009	10 years	50 million yen	1.2%
2010	10 years	50 million yen	1.2%
2011	10 years	50 million yen	1.2%
2012	10 years	40 million yen	1.0%
2013	10 years	30 million yen	1.0%

Immediate Depreciation Method for Energy-Saving and New-Energy Facilities (Proposal)

Introduce tax measures for 2 years to allow immediate depreciation with regard to investments in facilities aimed at reforming the energy supply or demand structure, and to investments in production facilities for goods such as energy-saving home electric appliances.

Extension of the application of the tax measure encouraging investments in facilities aimed at reforming the energy supply or demand structure

Allow immediate depreciation with regard to investments in facilities aimed at reforming the energy supply or demand structure for 2 years

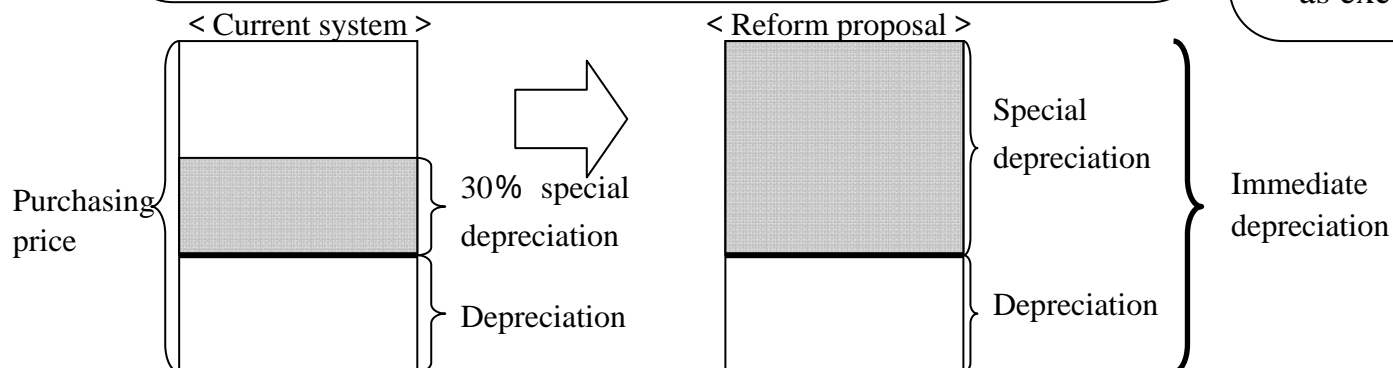
(Examples)

Solar power plant, natural gas vehicles, highly-insulated windows, etc.

Introduction of a tax measure to promote the improvement of resource productivity

Allow immediate depreciation with regard to the following investments for 2 years

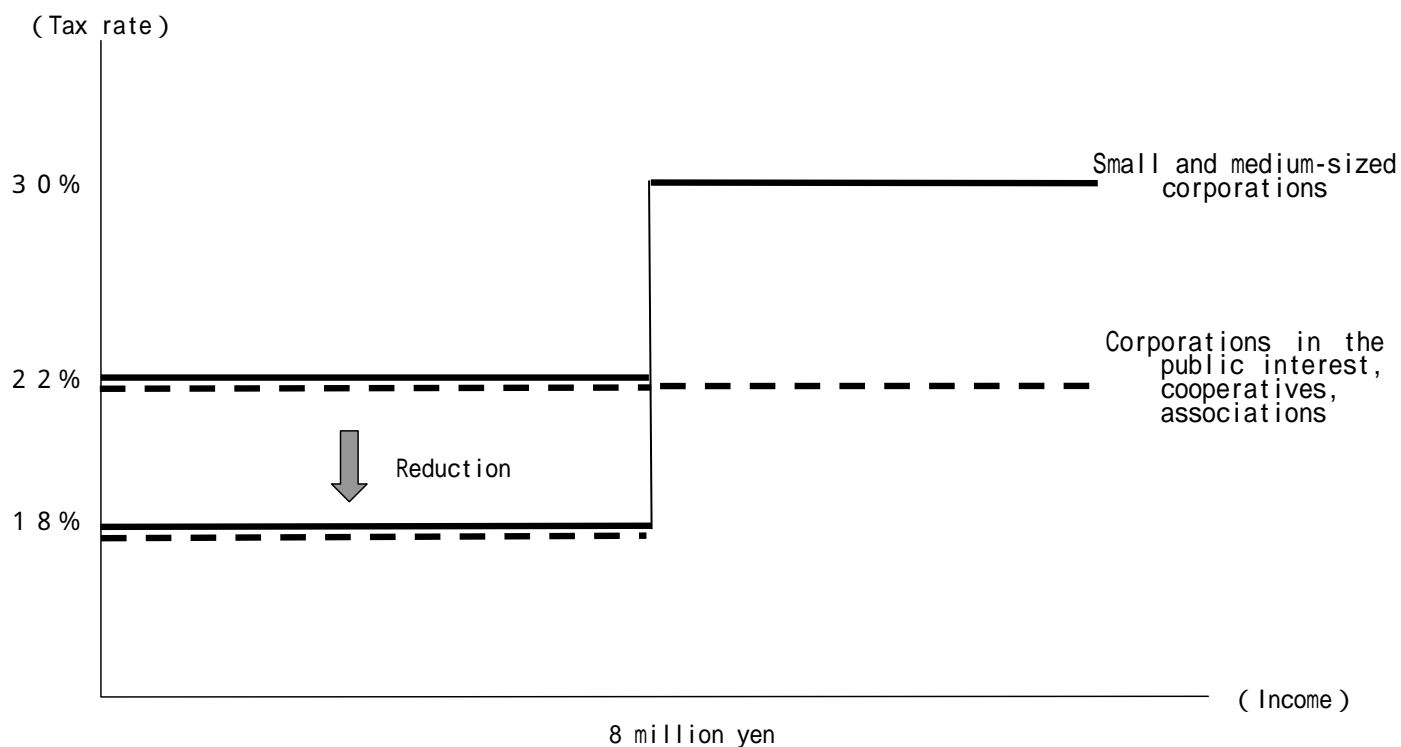
- 1 Investments by firms or offices to enhance their own resource productivity, or
- 2 Investments in production facilities for goods such as excellent energy-saving home electric appliances



Cut in the Reduced Corporate Tax Rate for SMEs (Proposal)

Lower the reduced corporate tax rate applied to yearly income of no more than 8 million yen earned by small and medium-sized enterprises (SME) from 22% to 18% during fiscal years ending on April 1, 2009 through March 31, 2011.

Tax rate structure of the corporation tax



Refund System Allowing the Carryback of Net Loss for SMEs (Proposal)

The refund system will be resumed as to losses incurred by SMEs in fiscal years ending on or after February 1, 2009.

(Example)

Corporation tax of the previous FY

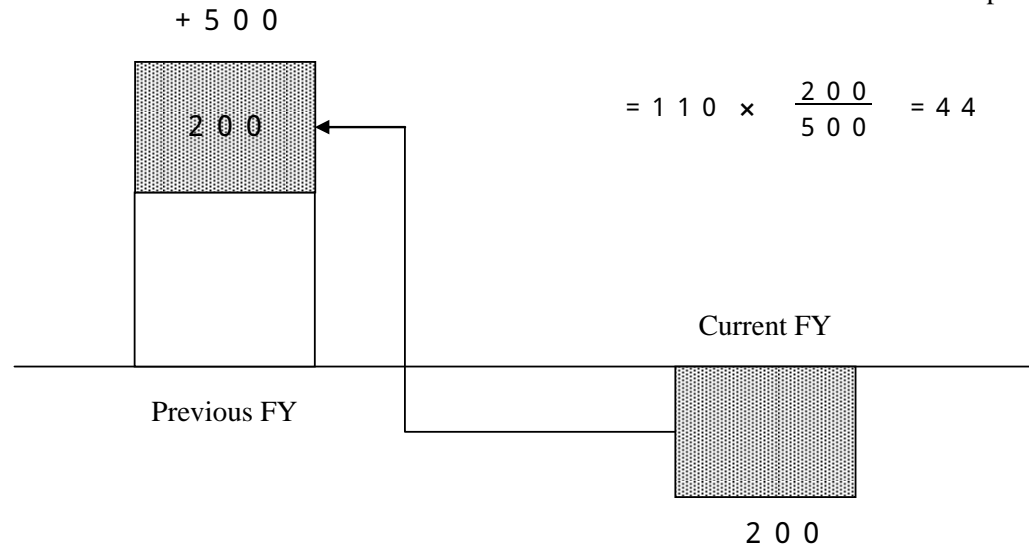
$$\begin{array}{rcl} \text{profit} & \text{tax rate} & \\ 500 & \times & 22\% = 110 \end{array}$$

Refund

$$= (\text{Corporation tax of the previous FY}) \times \left(\frac{\text{Loss of the current FY}}{\text{Profit of the previous FY}} \right)$$

$$= 110 \times \frac{200}{500} = 44$$

SMEs can get refunded on corporation tax they paid in the previous FY if they fall into a deficit this FY.



Taxation on Capital Gains and Dividends on Listed Shares (Proposal)

【 Current system 】

	~ Dec. 2008	2009	2010	2011	Jan. 2012 ~
Tax rate	10%	【General】 20%		20%	
		【Special measures】 Capital gains on listed shares 10% (Those portion not over 5 million yen) Dividends on listed shares 10% (Those portion not over 1 million yen)			
Deductibility of capital losses	-	Capital losses on listed shares are deductible from dividends. Jan. 2009 ~ Applicable through filing a final tax return Jan. 2010 ~ Applicable in a special account for shares in which tax is withheld			

【 Reform proposal 】

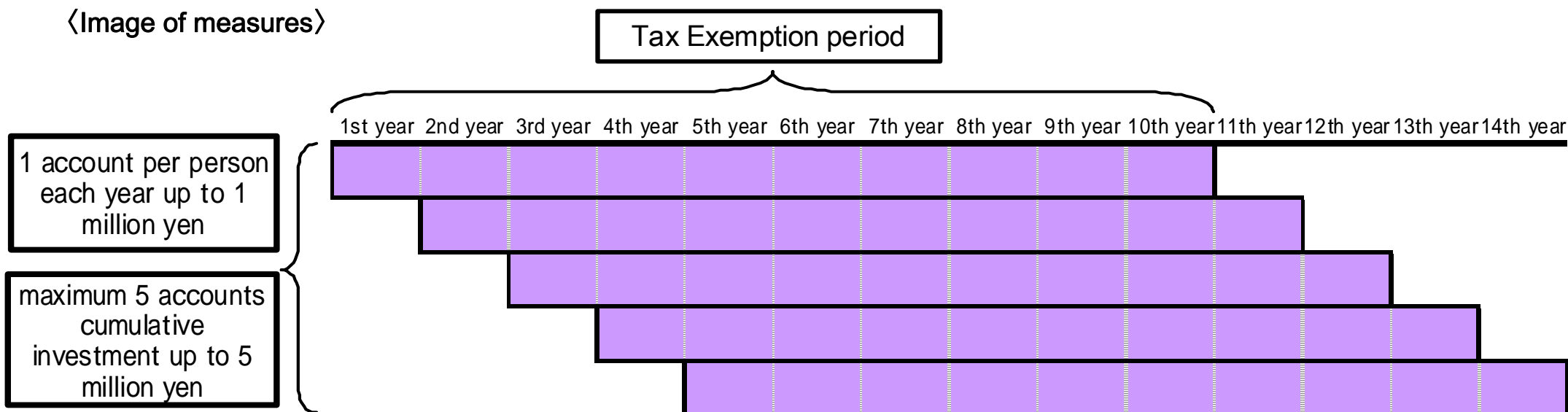
	~ Dec. 2008	2009	2010	2011	Jan. 2012 ~
Tax rate	10%	10%			20%
Deductibility of capital losses	-	Capital losses on listed shares are deductible from dividends. Jan. 2009 ~ Applicable through filing a final tax return Jan. 2010 ~ Applicable in a special account for shares in which tax is withheld			

Note: The expiration date of the reduced tax rate (7%) for dividends on listed shares received by non-residents that do not have permanent establishments, and domestic and foreign corporations is also extended to December 31, 2011 from March 31, 2009.

Tax Exemption for small investments in listed shares (Proposal)

- 1 . Scope of tax exemption : Dividends and capital gains derived from listed shares
- 2 . Investment Limit of Tax Exemption : 1 million yen as new annual investment (unused quota cannot be carried over)
- 3 . Total Investment Limit of Tax Exemption : 5 million yen (1 million yen × 5 years)
- 4 . Period of holding : 10 years (longest) free to sell shares any time (the amount of used quota cannot be reused)
- 5 . Number of accounts : one account per/person each year (allowed to open an account in a different financial institution every year)
- 6 . Person entitled to open an account : residents & non-residents with Permanent Establishment (20years old and above)
- 7 . Timing of introduction : when the 20% tax rate on dividends and capital gains from listed shares is applied

〈Image of measures〉



- Further consideration will be taken with regard to the details of the measure such as the appropriate management of accounts by means of number system to prevent illicit use of accounts and the withholding tax in the case where the breach of the requirements is found in the opening of an account. Necessary legal measures will be taken in the FY 2010 reform.

Defined Contribution Pension Plan (Proposal)

Revise the tax treatment with regard to defined contribution pension plans.

1. The individual contribution (“matching contributions”*) which will be introduced into corporate defined contribution pension plans are fully deductible.

*Matching contributions shall satisfy the following conditions:

they must not exceed the amount contributed by the employer; and
the total amount contributed by an employee and his/her employer must not exceed the contribution limit.

2. Raise the maximum amount of contribution for defined contribution pension plans.

(1) Corporate-type	(current system)	(reform proposal)
w/o other corporate pension plans	46	51
w/ other corporate pension plans	23	25.5
(2) Individual-type		
• w/o corporate pension plans	18	23

(in thousand yen, per month)

Life Insurance Deduction (Proposal)

【Current system】

Maximum amount of deductions: 100 thousand

Life insurance

~ 50 thousand yen

- life insurance
- long-term care insurance
- health insurance

Annuity insurance

~ 50 thousand yen

- annuity insurance

【Reform proposal】

Maximum amount of deductions: 120 thousand

Coverage for survivors

~ 40 thousand yen

- life insurance

Coverage for long-term care and medical care

~ 40 thousand yen

- long-term care insurance
- health insurance

Coverage for the old age

~ 40 thousand yen

- annuity insurance

Measure of tax neutrality for company's repatriation (Proposal)

Introduce a measure to treat the dividends received from overseas subsidiaries as non-taxable income in place of indirect foreign tax credit system

- This measure will be applied to the dividends received from overseas subsidiaries held by domestic corporations with 25% or more (or other ratio subject to the provisions of tax treaties) of shares for six months or more.
- Treat 95% of the dividends paid by overseas subsidiaries as non-taxable income.